BILL LOCKYER, Attorney General
of the State of California
BEN JOHNSON, State Bar No. 84406
Deputy Attorney General
California Department of Justice
300 So. Spring Street, Suite 1702
Los Angeles, CA 90013
Telephone: (213) 897-2095
Facsimile: (213) 897-2804

Attorneys for Complainant

BEFORE THE
CALIFORNIA BOARD OF ACCOUNTANCY
DEPARTMENT OF CONSUMER AFFAIRS
STATE OF CALIFORNIA

In the Matter of the Accusation Against: DAN NAHOM 6052 E. Cholla Street Scottsdale, AZ 85254 Certified Public Accountant License No. 76419 Respondent.	Case No. AC-2005-26 OAH No. **STIPULATED SETTLEMENT AND DISCIPLINARY ORDER**

IT IS HEREBY STIPULATED AND AGREED by and between the parties to the above-entitled proceedings that the following matters are true:

PARTIES

1. CAROL SIGMAN (Complainant) is the Executive Officer of the Board of Accountancy. She brought this action solely in her official capacity and is represented in this matter by Ben Johnson, Deputy Attorney General, on behalf of Bill Lockyer, Attorney General of the State of California.

2. Dan Nahom (Respondent) is representing himself in this proceeding and has chosen not to exercise his right to be represented by counsel.

3. On or about November 3, 1998, the Board of Accountancy issued Certified Public Accountant License No. 76419 to Dan Nahom (Respondent). The License was in full force and effect at all times relevant to the charges brought in Accusation No. AC-2005-26 and will expire on June 30, 2006, unless renewed.

JURISDICTION

4. Accusation No. AC-2005-26 was filed before the CALIFORNIA BOARD OF ACCOUNTANCY (THE BOARD) for the DEPARTMENT OF CONSUMER AFFAIRS, and is currently pending against Respondent. The Accusation and all other statutorily required documents were properly served on Respondent on August 15, 2005. Respondent timely filed his Notice of Defense contesting the Accusation. A copy of Accusation No. AC-2005-26 is attached as exhibit A and incorporated herein by reference.

ADVISEMENT AND WAIVERS

5. Respondent has carefully read, and understands the charges and allegations in Accusation No. AC-2005-26. Respondent has also carefully read, and understands the effects of this Stipulated Settlement and Disciplinary Order.

6. Respondent is fully aware of his legal rights in this matter, including the right to a hearing on the charges and allegations in the Accusation; the right to be represented by counsel at his own expense; the right to confront and cross-examine the witnesses against him; the right to present evidence and to testify on his own behalf; the right to the issuance of subpoenas to compel the attendance of witnesses and the production of documents; the right to reconsideration and court review of an adverse decision; and all other rights accorded by the California Administrative Procedure Act and other applicable laws.

7. Respondent voluntarily, knowingly, and intelligently waives and gives up each and every right set forth above.

CULPABILITY

8. Respondent admits the truth of each and every charge and allegation in Accusation No. AC-2005-26.

9. Respondent agrees that his Certified Public Accountant License is subject to discipline and he agrees to be bound by the THE BOARD's imposition of discipline as set forth in the Disciplinary Order below.

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CIRCUMSTANCES IN MITIGATION

10. Respondent Dan Nahom has never been the subject of any disciplinary action. He is admitting responsibility at an early stage in the proceedings.

RESERVATION

11. The admissions made by Respondent herein are only for the purposes of this proceeding, or any other proceedings in which the CALIFORNIA BOARD OF ACCOUNTANCY, DEPARTMENT OF CONSUMER AFFAIRS, and shall not be admissible in any other criminal or civil proceeding.

CONTINGENCY

12. This stipulation shall be subject to approval by the CALIFORNIA BOARD OF ACCOUNTANCY. Respondent understands and agrees that counsel for Complainant and the staff of the Board of Accountancy may communicate directly with the BOARD regarding this stipulation and settlement, without notice to or participation by Respondent. By signing the stipulation, Respondent understands and agrees that he may not withdraw his agreement or seek to rescind the stipulation prior to the time the BOARD considers and acts upon it. If the BOARD fails to adopt this stipulation as its Decision and Order, the Stipulated Settlement and Disciplinary Order shall be of no force or effect, except for this paragraph, it shall be inadmissible in any legal action between the parties, and the THE BOARD shall not be disqualified from further action by having considered this matter.

13. The parties understand and agree that facsimile copies of this Stipulated Settlement and Disciplinary Order, including facsimile signatures thereto, shall have the same force and effect as the originals.

14. In consideration of the foregoing admissions and stipulations, the parties agree that the BOARD may, without further notice or formal proceeding, issue and enter the following Disciplinary Order:

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DISCIPLINARY ORDER

IT IS HEREBY ORDERED that Certified Public Accountant License No. 76419 issued to Respondent Dan Nahom is revoked. However, the revocation is stayed and Respondent is placed on probation for three (3) years on the following terms and conditions.

1. **Actual Suspension.** Certified Public Accountant License No. 76419 issued to Dan Nahom is suspended for one (1) year. During the period of suspension the Respondent shall engage in no activities for which certification as a Certified Public Accountant or Public Accountant is required as described in Business and Professions Code, Division 3, Chapter 1, Section 5051.

2. **Obey All Laws.** Respondent shall obey all federal, California, other states' and local laws, including those rules relating to the practice of public accountancy in California.

3. **Submit Written Reports.** Respondent shall submit, within ten (10) days of completion of the quarter, written reports to the Board on a form obtained from the Board. The Respondent shall submit, under penalty of perjury, such other written reports, declarations, and verification of actions as are required. These declarations shall contain statements relative to Respondent's compliance with all the terms and conditions of probation. Respondent shall immediately execute all release of information forms as may be required by the Board or its representatives.

4. **Personal Appearances.** Respondent shall, during the period of probation, appear in person at interviews/meetings as directed by the Board or its designated representatives, provided such notification is accomplished in a timely manner.

5. **Comply With Probation.** Respondent shall fully comply with the terms and conditions of the probation imposed by the Board and shall cooperate fully with representatives of the Board of Accountancy in its monitoring and investigation of the Respondent's compliance with probation terms and conditions.

6. **Practice Investigation.** Respondent shall be subject to, and shall permit, practice investigation of the Respondent's professional practice. Such a practice investigation

shall be conducted by representatives of the Board, provided notification of such review is accomplished in a timely manner.

7. **Comply With Citations.** Respondent shall comply with all final orders resulting from citations issued by the Board of Accountancy.

8. **Violation of Probation.** If Respondent violates probation in any respect, the Board, after giving Respondent notice and an opportunity to be heard, may revoke probation and carry out the disciplinary order that was stayed. If an accusation or a petition to revoke probation is filed against Respondent during probation, the Board shall have continuing jurisdiction until the matter is final, and the period of probation shall be extended until the matter is final.

9. **Completion of Probation.** Upon successful completion of probation, Respondent's license will be fully restored.

10. **Cost Reimbursement.** Respondent shall reimburse the Board $2,486.50 for its investigation and prosecution costs. The payment shall be made on or before March 1, 2006.

11. **Relinquish Certificate.** Respondent shall relinquish and shall forward or deliver the certificate or permit to practice to the Board office within 10 days of the effective date of this decision and order.

12. **Active License Status.** Respondent shall at all times maintain an active license status with the Board, including during any period of suspension. If the licence is expired at the time the Board's decision becomes effective, the license must be renewed within 30 days of the effective date of the decision.

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ACCEPTANCE

I have carefully read the Stipulated Settlement and Disciplinary Order. I understand the stipulation and the effect it will have on my Certified Public Accountant License. I enter into this Stipulated Settlement and Disciplinary Order voluntarily, knowingly, and intelligently, and agree to be bound by the Decision and Order of the CALIFORNIA BOARD OF ACCOUNTANCY, DEPARTMENT OF CONSUMER AFFAIRS.

DATED: October 10, 2005

DAN NAHUM
Respondent

ENDORSEMENT

The foregoing Stipulated Settlement and Disciplinary Order is hereby respectfully submitted for consideration by the CALIFORNIA BOARD OF ACCOUNTANCY, DEPARTMENT OF CONSUMER AFFAIRS.

DATED: OCTOBER 11, 2005

BILL LOCKYER, Attorney General
of the State of California

BEN JOHNSON
Deputy Attorney General
Attorneys for Complainant

BJ jw

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BEFORE THE
CALIFORNIA BOARD OF ACCOUNTANCY
DEPARTMENT OF CONSUMER AFFAIRS
STATE OF CALIFORNIA

In the Matter of the Accusation Against: DAN NAHOM 6052 E. Cholla Street Scottsdale, AZ 85254 Certified Public Accountant License No. 76419 Respondent.	Case No. AC-2005-26 OAH No.

DECISION AND ORDER

The attached Stipulated Settlement and Disciplinary Order is hereby adopted by the CALIFORNIA BOARD OF ACCOUNTANCY, DEPARTMENT OF CONSUMER AFFAIRS, as its Decision in this matter.

This Decision shall become effective on December 23, 2005.

It is so ORDERED November 23, 2005.

FOR THE CALIFORNIA BOARD OF ACCOUNTANCY
DEPARTMENT OF CONSUMER AFFAIRS

BILL LOCKYER, Attorney General
of the State of California
BEN E. JOHNSON, State Bar No. 84406
Deputy Attorney General
California Department of Justice
300 So. Spring Street, Suite 1702
Los Angeles, CA 90013
Telephone: (213) 897-2095
Facsimile: (213) 897-2810

Attorneys for Complainant

BEFORE THE
CALIFORNIA BOARD OF ACCOUNTANCY
DEPARTMENT OF CONSUMER AFFAIRS
STATE OF CALIFORNIA

In the Matter of the Accusation Against: DAN NAHOM 6052 E. Cholla Street Scottsdale, AZ 85254 Certified Public Accountant License No. 76419 Respondent.	Case No. AC-2005-26 **ACCUSATION**

Complainant alleges:

PARTIES

1. Carol Sigmann (Complainant) brings this Accusation solely in her official capacity as the Executive Officer of the California Board of Accountancy, Department of Consumer Affairs (Board).

2. On or about November 3, 1998, the Board issued Certified Public Accountant License No. 76419 to Dan Nahom (Respondent). The Certified Public Accountant License was in full force and effect at all times relevant to the charges brought herein and will expire on June 30, 2006, unless renewed.

JURISDICTION

3. This Accusation is brought before the Board, under the authority of the following laws. All section references are to the Business and Professions Code unless otherwise

indicated.

4. Section 5100 states, in pertinent part:

"After notice and hearing the board may revoke, suspend, or refuse to renew any permit or certificate granted under Article 4 (commencing with Section 5070) and Article 5 (commencing with Section 5080), or may censure the holder of that permit or certificate for unprofessional conduct that includes, but is not limited to, one or any combination of the following causes:

. . . .

"(h) Suspension or revocation of the right to practice before any governmental body or agency. . . ."

5. Section 118, subdivision (b), of the Code provides that the suspension / expiration / surrender / cancellation of a license shall not deprive the Board of jurisdiction to proceed with a disciplinary action during the period within which the license may be renewed, restored, reissued or reinstated.

6. Section 5107, subdivision (a), states:

"The executive officer of the board may request the administrative law judge, as part of the proposed decision in a disciplinary proceeding, to direct any holder of a permit or certificate found to have committed a violation or violations of this chapter to pay to the board all reasonable costs of investigation and prosecution of the case, including, but not limited to, attorneys' fees. The board shall not recover costs incurred at the administrative hearing."

CAUSE FOR DISCIPLINE

(Suspension of Right to Practice Before a Governmental Agency)

7. Respondent is subject to disciplinary action under section 5100, subdivision (h), in that on or about September 20, 2004, pursuant to a Decision and Order between Respondent and the Arizona State Board of Accountancy in case number 2002.057.ACY, entitled *"In the Matter of the Certified Public Accounting Certificate No. 3789-E issued to: Dan Nahom, Respondent"* (Attached hereto as Exhibit "A" and incorporated by reference.), respondent's Arizona State Public Accounting Certificate was suspended for 18

months and placed on probation for five (5) years with additional disciplinary terms and conditions.

PRAYER

WHEREFORE, Complainant requests that a hearing be held on the matters herein alleged, and that following the hearing, the California Board of Accountancy issue a decision:

1. Revoking, suspending, or otherwise imposing discipline upon Certified Public Accountant License No. 76419, issued to Dan Nahom;

2. Ordering Dan Nahom, pursuant to Business and Professions Code section 5107, to pay the California Board of Accountancy the reasonable costs of the investigation and enforcement of this case;

3. Taking such other and further action as deemed necessary and proper.

DATED: August 4, 2005

Carol Sigmann
CAROL SIGMANN
Executive Officer
California Board of Accountancy
Department of Consumer Affairs
State of California
Complainant

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EXHIBIT “A”
Decision and Order (By Consent)

BEFORE THE ARIZONA STATE BOARD OF ACCOUNTANCY

In the Matter of Certified Public Accounting Certificate No. 3789-E issued to: DAN NAHOM, Respondent	)	Case No. 2002.057.ACY **DECISION AND ORDER** (By Consent)

I. INTRODUCTION AND JURISDICTION

1. The Arizona State Board of Accountancy ("Board") is the state agency authorized pursuant to A.R.S. § 32-701 et seq. to regulate the profession of certified public accountants in the State of Arizona.

2. The Board commenced an investigation into the services provided by the certified accounting firm Arthur Andersen LLP ("Andersen") and other Andersen certified public accountants, including Dan Nahom ("Respondent"), to Styling Technology Corporation ("STC"). The investigation was commenced pursuant to A.R.S. § 32-701 et seq. The Board and Respondent have agreed to a full and final settlement of this matter as reflected in this Decision and Order By Consent ("Consent Order").

3. Respondent disputes that the Factual Findings set forth below are complete and accurate, denies any wrongdoing with regard to the matters set forth herein, and denies that any violations of professional standards have occurred. The Consent Order represents a compromise of disputed matters and is the result of good faith settlement negotiations regarding issues that are disputed by the parties. The Findings of Fact and Conclusions of Law set forth herein are only for purposes of settlement of this disputed matter, and shall have no application or effect outside any proceedings initiated by the Board, including as

evidence from which any liability or wrongdoing could be inferred. The Board has not made a determination on the merits contained herein.

4. This Consent Order is based upon the following Findings of Fact and Conclusions of Law and entered in lieu of formal disciplinary proceedings.

II. FINDINGS OF FACT

A. Respondent

5. Respondent is a certified public accountant who holds Arizona Certificate No. 3789-E. This Certificate was issued on February 22, 1983, and is current through June 30, 2006. This Certificate was in full force and effect at all material times.

6. At all material times, Nahom was a partner in the Phoenix, Arizona office of Andersen and was the partner in charge of Andersen's audit engagements relating to STC's restatement of its 1997 and 1998 financial statements and original issuance of its 1999 financial statements. Nahom was also the concurring partner on Andersen's original audit of STC's 1998 financial statements.

B. Background

7. STC sought to become the leading professional salon products company in the United States and internationally. To accomplish this STC bought small beauty product companies, combined them into one larger company and sought to increase sales through national marketing and cross selling and lower costs through economies of scale. In November 1996 STC commenced operations by simultaneously completing its initial public offering and acquiring four professional salon product businesses. STC acquired seven additional professional salon product businesses, three in 1997 and four in 1998.

8. Andersen audited STC's 1996, 1997, 1998, 1999 and the restated 1997 and 1998 financial statements. Andersen also performed work on STC's initial public offering

and quarterly and annual filings with the United States Securities and Exchange Commission ("SEC").

9. Andersen audited the financial statements of the four professional salon businesses acquired in 1996, and provided comfort letters to the underwriters in connection with the IPO offering. After the IPO, Andersen was hired as STC's auditor for its quarterly reviews and year-end audits. Additionally, Andersen was hired to do consulting work for STC including consulting on its computer accounting systems. Andersen issued unqualified opinions on STC's 1996, 1997, and 1998 financial statements. Nahom was the concurring partner for the 1998 engagement.

10. In 1998, as described in Andersen's workpapers, STC implemented "highly aggressive accounting policies," due to its desire to "maintain high stock value" and had a "weak business risk management process." In 1996, the Andersen work papers assessed the fraud risk as maximum, and in 1997 as moderate. Further, in order to meet both senior management's sales and profit goals and Wall Street's expectations, in 1997 STC began recording various forms of fictitious sales and other activities to inflate profits. These alleged improprieties included, among other practices, recording sales where goods were not shipped, or shipped in subsequent periods, and under reporting needed reserves for doubtful accounts and other matters.

11. The pressure to keep increasing sales and profits apparently was so great that the vice president of STC's Body Drench Division began having difficulty meeting senior management's expectations. Accordingly, in August 1999, this vice-president's employment with STC was terminated. On August 27, 1999, the terminated vice-president wrote a letter to the SEC describing STC's fraudulent practices. The SEC immediately commenced an investigation.

12. STC then publicly stated that it was aware of information indicating the occurrence of certain financial reporting errors and irregularities relating to its Body Drench Division. Subsequently, STC cancelled a planned secondary offering needed to fund various acquisitions and other activities and stated that its revenue and earnings for the period ended September 30, 1999 would fall significantly short of expectations. Shortly thereafter, STC announced that it would be unable to file its third quarter Form 10-Q because of these irregularities and that it anticipated restating prior year financial statements. STC's audit committee engaged legal counsel who hired forensic accountants to investigate such allegations.

13. STC engaged Andersen to audit the restated 1997 and 1998 financial statements contemporaneously with Andersen's audit of STC's 1999 financial statements. Nahom was the engagement partner on these audits. Andersen issued an unqualified opinion with emphasis of a matter regarding going concern, dated October 18, 2000, on STC's 1999 and restated 1997 and 1998 financial statements. These opinions were included in STC's Forms 10-K/A and 10-K filed on October 20, 2000 with the SEC.

14. On August 31, 2000, STC filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code.

15. STC's management was responsible for the preparation of STC's financial statements in conformity with Generally Accepted Accounting Principles ("GAAP"). GAAP are the conventions, rules and procedures which represent accepted accounting practices at a certain time.

16. Respondent's conduct as the concurring partner on the audit of STC's 1998 financial statements and as the partner in charge of the audit of STC's 1999 and restated 1997 and 1998 financial statements is the subject of this Consent Order. Respondent, as the supervising partner on the STC engagements for Andersen as described herein, was required

to conduct the audits in accordance with Generally Accepted Auditing Standards ("GAAS") and to report Andersen's compliance with GAAS in its opinion. GAAS, among other matters, required Respondent to state whether STC's financial statements were presented in conformity with GAAP and to disclose material departures from GAAP in STC's financial statements. As the concurring partner on the original audit of the 1998 STC financial statements, Respondent was required to perform his work with due professional care and in compliance with the standards of field work and reporting.

C. Revenue Recognition in 1998

17. STC's year-end was December 31. STC's 1996 and 1997 Form 10-K described the Company's revenue recognition policy as "The Company recognizes revenue from sales at the time product is shipped".

18. In the 1998 financial statements, $1.1 million of sales were recorded for products shipped after year-end. As of December 31, 1998, these products were held by a third party warehouse on shrink wrapped pallets and were not shipped until early January, due to carrier unavailability. STC regularly stored some of its products at this warehouse. Previously, pursuant to its revenue recognition policy, STC did not recognize sales shipped from this warehouse until they had been placed into the possession of the carrier.

19. In planning for the 1998 audit engagement, Andersen's Fraud Risk Factors identified several risk factors including: (a) willingness of management to override controls to achieve desired results; (b) disregard of the importance of maintaining a strong control environment; (c) highly aggressive accounting policies and (d) commitments made to analysts, creditors or shareholders to achieve an apparently unrealistic forecast.

20. After the close of the 1998 fiscal year, in an effort to support the revenue recognition of the $1.1 million in product that was not shipped before the end of the year, STC sought letters from customers to support its position that ownership and risk transferred

when the product was ready for shipping even though it was not shipped. However, the State contends that there are no documents dated prior to year end that support the claim of a transfer of ownership and risk at December 31, 1998, and therefore, the sale should not have been recorded until 1999. (Such transfer of ownership and risk at or before 1998 is required in order to recognize a sale in 1998 in accordance with GAAP.)

21. Regarding this transaction, the Andersen audit team conferred with Respondent, the concurring partner on the engagement. Respondent received a summary memo prepared by an Andersen senior accountant analyzing revenue recognition for goods that were not shipped until after the end of the year. Respondent also reviewed the work papers regarding this transaction. Respondent also requested and received a legal opinion from O'Connor Cavanagh, Andersen, Killingsworth & Beshears, STC's outside counsel, that title to the goods passed to the customers in December 1998. As the concurring partner, he was required to observe the standards of field work and reporting.

22. Respondent concurred with the audit team that ownership risk passed to the buyers at year-end and that the transaction resulted in revenue recognition in 1998. The State contends that the conclusion is inconsistent with GAAP. Further, the State contends that Respondent failed to adequately consider STC's method of obtaining and the content of the customer letters, the various identified risks in STC's accounting and financial reporting, the heightened professional skepticism that these particular transactions required and the need to perform significant additional auditing procedures. The State contends that the $1.1 million of transactions should not have been recorded as sales in the originally issued nor in the restated 1998 financial statements and additional substantive auditing procedures should have been performed.

D. Restatement of 1998 and 1997 Financial Statements and 1999 Audit

23. After the alleged financial statement fraud was discovered, STC hired the law

firm Greenberg Traurig ("GT") to investigate the matter. GT hired forensic accountants, Zolondek, Strassels, Greene & Freed ("Zolondek"). GT directed Zolondek's work. Zolondek examined the 1997 and 1998 sales transactions which (1) were still unpaid early in 2000, (2) offset by 100% credit in a subsequent period and (3) occurred on the last day of a quarter or a year.

24. The State contends that Andersen obtained copies of only those portions of Zolondek's work papers that Zolondek was willing to produce. These workpapers showed, for the Body Drench division, the transactions recommended for reversal and, for the non-Body Drench division, the transactions examined in those divisions. Andersen tested Zolondek's work by re-auditing the transactions listed in Zolondek's work papers. The State contends that the restatement of the 1997 and 1998 financial statements came directly from the Zolondek work papers.

25. The State contends that Andersen essentially did no independent auditing of the 1998 and 1997 financial statements beyond testing the transactions which Zolondek examined. The State contends that Andersen relied upon Zolondek's work even though Zolondek's scope of work did not represent an audit in accordance with GAAS.

26. The State contends that Respondent did not review a copy of Zolondek's engagement letter or their work programs. Also, the State contends that Zolondek informed Respondent that it was not engaged to assist STC in the restatement of the 1997 and 1998 financial statements, had no responsibility or involvement in determining the scope of work for the restatement, and advised Respondent that its work could not be the basis for the restatement. The State contends that in spite of this, Respondent's scope of work for the restatement was essentially testing the work performed by Zolondek. There is no reference in Andersen's opinion on the restated financial statements to its reliance upon Zolondek's work.

Andersen and Respondent assumed full responsibility for the audit work performed in connection with the restatement.

27. Respondent should have considered the impact of STC's fraudulent activities on the 1999 and the restated 1997 and 1998 financial statements. Andersen identified significant fraud risks such as weak business risk management process; unusual or highly complex transactions, especially near year end that posed difficult "substance over form" questions and numerous proposed audit adjustments.

28. Additionally, Andersen's "All Risks Analysis" for STC listed numerous risks in the "First Quadrant" (the highest risk classification). Andersen rendered a management letter after the 1999 audit, but dated before the restated financial statements and the 1999 financial statements were filed with the SEC. This management letter noted that there were certain matters that were considered "to constitute significant deficiencies and material weaknesses under standards established by the AICPA." These matters included revenue recognition and accounts receivable and credit policy, among others.

29. The highest level of professional skepticism was required regarding the 1997 and 1998 restatements and the 1999 audit. The State contends that in spite of the risks in dealing with STC as outlined by Andersen's own program, Respondent did not apply the highest level of professional skepticism to these circumstances, including determining the extent of errors in the restated prior year financial statements.

30. The reissued 1998 financial statements required heightened professional skepticism, due to the following:

a. After giving effect to the restatement, the 1997 and 1998 financial statements reported profits of $1.78 million and $560,000.00, respectively, with a loss reported in the 1999 financial statements of $51.8 million. The State contends that any sizeable increase in the restatement to the 1998 financial statements could cause (1) the 1998 statements to also report a loss, (2) the loss reported in the 1999 statements to not be viewed as being a one time occurrence and (3) increased potential litigation exposure.

b. The State contends that the amended Form 10-K/A for 1998 filed by STC described the errors and irregularities as being solely in the Body Drench division. The State contends that expansion of the improprieties and errors to other divisions could cause the reader of the financial statements to give greater significance to these problems.

31. The State contends that there were a number of adjustments and other matters Andersen noted and recorded in the 1999 financial statements that Respondent should have investigated to determine whether they were attributable to earlier years. The State contends that due to the high-risk nature of accounts receivable, particularly in reconciliations, and the numerous other accounting deficiencies and risks, additional work and analysis was required. The State contends that Andersen's workpapers failed to support any substantive analysis or proper investigation regarding the need to determine in what year the following adjustments should have been recorded:

a. Intercompany Reconciliations: In the 1999 testing of trade accounts receivable, approximately of $2.049 million of Styling UK's receivables (a subsidiary of STC), was found to actually represent intercompany accounts receivable. STC reclassified to an intercompany account that amount which was offset by intercompany payables causing $1.145 million to be written off to bad debt expense in 1999, because no offsetting intercompany payable could be located. In a further accounts receivable analysis, it was determined that $430,000.00 of the $2.049 million intercompany receivable actually related to prior years. The State contends that no further investigation was performed to determine if this reconciliation problem existed in prior years and whether a portion of the write off related to prior years.

b. Unidentified Account Receivable: STC was unable to provide support for an account totaling approximately $444,000. The account was written off to Selling, General and Administrative Expense. The State contends that Respondent did not conduct any analysis or investigation to determine if this account receivable, which was lacking support, existed in prior years.

c. Reserve for Prior Year Accounts Receivable: A reserve of $2.6 million, representing a 100% reserve for accounts receivable over one year old was charged to 1999 operations. The State contends that no analysis or other procedures were performed to substantiate that the $2.6 million charge should have been included in the 1999 financials and not included in the prior year restatement. The State contends that further, the review of the 1998 workpapers regarding Body Drench Division, which represented almost 40% of the receivable balance, indicated irregularities in the confirmation process, heavy reliance upon management's representations and an extremely small reserve. The State contends that these matters should have caused Respondent to re-estimate and re,-audit STC's bad debt reserve for 1998. The State contends that to the extent this analysis showed that the original estimate to have been unreasonable, the $2.6 million adjustment to the reserve for bad debts should have been included in the restatement. The State contends that no such re-estimate or re-audit was performed.

d. Sale with Right to Return: STC sold $1.6 million on December 30, 1997 to a customer from its ABBA subsidiary. On February 26, 1998 the customer returned a portion of the product for an approximate $589,000 credit. In August 1998, $1.4 million of this receivable was offset against a payable to this customer for consulting services performed in connection with an acquisition. The State contends that on its face, this sale either did not meet the required criteria for revenue recognition and should have been reversed in its entirely, or at a minimum, the $589,000 portion should have been reserved as a product return. The State contends that the reversal or reserve was not done, and this return was not investigated to determine what accounting was appropriate. The State contends that similarly, a $1.05 million sale of product from subsidiaries ABBA and Framesi raised issues regarding whether a recognizable sale had occurred, but Respondent did not undertake appropriate audit work to determine the proper accounting.

e. Provision for Product Returns and Similar Credits: Significant credits issued in 2000 relating to 1999 and 1998 sales resulted in the recording of a net charge to the 1999 operations of approximately $3.5 million. However, the State contends that despite the sizeable amounts involved in three large credits included in this $3.5 million, as well as serious questions involving 1998 sales and receivables and the required high degree of professional skepticism, no substantive audit work was performed to determine whether any of these matters related to prior year financial statements. The State contends that Respondent relied on management's explanation that these amounts should be attributable to 1999 instead of 1998.

f. Inventory Reserves: In 1999, STC estimated that discontinued, slow-moving and obsolete inventory needed a reserve of $8.3 million. In 1998, the total recorded inventory reserve was approximately $400,000 with minimal analysis. The State contends that a thorough analysis should have been performed to determine if some of the large 1999 increases in inventory reserves related to prior years. The State contends that such analysis should have been performed due to, among other reasons: (1) the significant increase in 1999 of the inventory reserve, (2) the inadequate investigation of obsolete inventory in 1998, (3) the commonality of ABBA inventory that referred to "old packing" issues in both years, (4) the significant accounting and financial reporting risks in both years and (5) the heightened level of professional skepticism that should have been exercised.

g. Goodwill Impairment: STC recognized goodwill impairment of $13.4 million in the 1999 financial statements. However, the State contends that Respondent failed to investigate whether part of this impairment occurred in the prior years. The State contends that this failure was in spite of the material correction of an error in the prior year financial statements due to fraud, and the numerous "red flags" requiring further examination as noted in the above sub-paragraphs (a)-(f). The State contends that because these significant adverse events apparently related to prior years, they would be accounted for as a correction of an error. The State contends that further, all effects of such correction of an error, including any goodwill impairment, should be similarly reflected in the prior year. The State contends that no such audit work on prior year goodwill impairment was performed.

32. Further, the State contends that, in considering the seven items listed above in Paragraph 31, throughout the 1999 audit and the related restatement work, Respondent maintained a systemic lack of appropriate professional skepticism and substantive auditing procedures in investigating the potential additional restatements of the prior years. Additionally, the State contends that Respondent was aware that Jay Ozer, his, fellow Andersen partner, was under investigation by the SEC for his work on the 1997 and 1998 audits and that any adjustments to these prior year audits would reflect negatively upon Mr. Ozer.

III. CONCLUSIONS OF LAW

33. The Board has personal and subject matter jurisdiction over Respondent pursuant to A.R.S. § 32-701 et seq. and A.A.C. R4-1-101 ct seq. The Board has the authority to discipline Respondent pursuant to A.R.S. § 32-741(A)(4); (A)(6) and (A)(9).

34. Pursuant to A.R.S. § 32-741, after notice and opportunity for hearing, the Board may revoke or suspend Respondent's certificate to practice public accounting and take other disciplinary action concerning Respondent for engaging in dishonesty, fraud or gross or

continuing negligence in the practice of accounting (A.R.S. § 32-741(A)(4)); for violating A.R.S. § 32-746 which prohibits fraudulent audit practices (A.R.S. § 32-741(A)(6)) and for knowing violations of the rules issued or adopted by the Board (A.R.S. § 32-741(A)(9)). This Consent Order is in lieu of formal disciplinary proceedings.

35. While Respondent denies that any violations of professional standards have occurred in connection with the engagements in issue, and disputes that the Findings of Fact are accurate and complete, if this matter proceeded to hearing, the State would introduce evidence it contends would show that Respondent's conduct, in connection with the audits and services described in the Findings of Facts, constitutes a failure to comply with applicable professional standards as set forth in. A.A.C. R4-1-455.01 and the A.A.C. R4-1-455.03, and violates A.R.S. § 32-746.

36. The State contends that Respondent, throughout the 1999 audit and the related restatement work, did not comply with the Statements on Auditing Standards on Subsequent Discovery, Due Professional Care (highest degree of professional skepticism), Accounting Estimates, Audit Risk and Consideration of Fraud and the Financial Accounting Standards Board Statements on Contingencies, Revenue Recognition and Adjustments of Prior Periods. The State contends that the Adjustments of Prior Periods as described paragraph 31 represent situations (1) which were factual, (i.e., Intercompany Reconciliation, Unidentified Accounts Receivable and Sale with Right to Return), (2) where the prior year basis for an estimate was found to be significantly deficient, (i.e., Reserve for Prior Year Accounts Receivable) and where little, if any, reserves were provided in the prior year, (i.e., Provision for Product Returns, Inventory Reserves and Goodwill Impairment).

37. The State contends that the 1998 financial statements were not prepared in conformity with GAAP due to improper revenue recognition. The State contends that Respondent's conduct was not in accordance with GAAS due to, among other matters, lack of

due professional care, including deficiencies in professional skepticism and reasonable assurance, inadequate consideration of audit risk, failure to obtain sufficient competent evidential matter, failure to appropriately evaluate confirmations and violation of the reporting standards regarding noncompliance with GAAP.

38. The State contends that with respect to Respondent's work on STC's restatement of the 1997 and 1998 financial statements, STC's 1997 and 1998 restated financial statements were not prepared in accordance with GAAP due to improper revenue recognition. The State contends that Respondent's conduct in auditing numerous adjustments recorded in STC's 1999 Statement of Operations was not in accordance with GAAS due to, among other matters, lack of professional care, including deficiencies in professional skepticism and reasonable assurance, failure to adequately plan the engagement and supervise assistants, inadequate consideration of audit risk, failure to obtain sufficient competent evidential matter, and violation of the reporting standards regarding noncompliance with GAAP. The State contends that these adjustments, which were not audited in accordance with GAAS, included, among others, adjustments related to revenue recognition, reserves for bad debts, inventory obsolescence and provision for product returns.

39. The State contends that the 1999 financial statements were not prepared in accordance with GAAP due to improper revenue recognition. The State contends that Respondent's conduct in auditing numerous adjustments recorded in STC's 1999 Statement of Operations was not in accordance with GAAS due to, among other matters, lack of due professional care, including deficiencies in professional skepticism and reasonable assurance, failure to adequately plan the engagement and supervise assistants, inadequate consideration of audit risk, failure to obtain sufficient competent evidential matter, and violation of the reporting standards regarding noncompliance with GAAP. See paragraph 31 for partial list of such adjustments.

IV. ORDER

40. Based upon the aforementioned Findings of Fact and Conclusions of Law, IT IS HEREBY ORDERED THAT:

41. Respondent's Certificate No. 3789-E is suspended for 18 months. During the suspension his CPA certificate is temporarily relinquished. Respondent shall deliver his certificate to practice as a public accountant to the Board within 10 days of the effective date of this Order.

42. The effective date of this Order is the date it is signed by the Board President. Based upon Respondent's avowal in the Consent Order that Respondent has no clients, the Board's notice requirement to current clients shall be deemed satisfied.

43. Within 10 days of the effective date of this Order, Respondent shall destroy all stationary, cards, signage and any other business paraphernalia indicating he is a CPA.

44. Respondent shall pay the costs of the investigation in the amount of $100,000.00, payable 10 days after the Respondent's signing of this Consent Order. Payment shall be delivered or mailed no later than the due date to the office of the Executive Director of the Board.

45. At the conclusion of the 18 months suspension, Respondent's certificate shall be returned to him by the Board. However, Respondent shall remain on probation for an additional five years.

46. During the periods of suspension (1.5 years) and probation (5.0 years) [6.5 years in total], Respondent shall remain current on all required Continuing Professional Education (CPE). Additionally during the first year of his probation, Respondent shall attend an additional forty hours, above the normal requirement of CPE, related to GAAP and GAAS.

47. During the probation period, Respondent shall not conduct any audits or other restricted financial services. Upon termination of probation, Respondent shall submit for peer review the first three audits or other attestation services that Respondent conducts.

48. In the event Respondent fails to make the payment referenced in paragraph 44, Respondent consents to the entry of judgment in Maricopa County Superior Court in the amount of $100,000.

49. The Board may withdraw the Order, take any and all remedial action allowed by law, including but not limited to proceeding with disciplinary proceedings if any of the following occur:

a. Respondent fails to timely comply with any of the provisions of this Order, or

b. Respondent holds himself out as a CPA after the effective date of this Order and during the suspension period, or

c. If the Board learns that during the suspension period Respondent has engaged in practice for which a CPA license is required.

50. This Decision and Order (By Consent) is a full and final settlement of this disputed matter.

DATED this 20 day of September, 2004.

By: [signature]
Frank J. Brady, CPA, President

CONCURRING:

Donald R. Bays, CPA
James Evan May, Public Member
Loretta Peto, CPA
Patrick J. Ramirez, Public Member

. . .

CONSENT TO BOARD DECISION AND ORDER

I, Dan Nahom, being duly sworn, state under oath, the following:

I have read and understand everything contained in the foregoing Findings of Fact, Conclusions of Law and Order. If this Consent Order is approved by the Board, without admitting the allegations contained therein, I agree to its immediate issuance and to be bound by its terms.

I am aware of my right to an administrative hearing in this matter and hereby waive the same. I waive all my rights to challenge the foregoing Consent Order on appeal, or otherwise, to the Board or any other court or tribunal. However, nothing in this Consent Order shall preclude me from giving evidence and testimony, if called upon to do so, in any proceeding.

I understand that a violation of the Consent Order will constitute grounds for further action. I understand that the Consent Order may be considered in any future disciplinary action against me.

I consent to this Consent Order for the sole purpose of entering into a full and complete settlement of this disputed matter. In addition, I deny any wrongdoing with regard to the matters set forth herein and deny that any violations of professional standards have occurred.

I understand that this Consent Order and the related investigation is a matter of public record. I resigned from Arthur Andersen in August 2002 and have not engaged in auditing or tax preparation services since that time. I have no clients to notify of the suspension of my certificate.

. . .

. . .

. . .

By my signature, I verify that I have read and understand everything contained in the foregoing Consent Order.

DATED this 20TH day of September, 2004.

By:

Dan Nahom

State of Arizona
County of Maricopa

The foregoing Consent to Board Decision and Order was acknowledged before me this 20th day of September 2004, by Dan Nahom.

SEAL

OFFICIAL SEAL
JERRIE L. ROBERTS
NOTARY PUBLIC-ARIZONA
MARICOPA COUNTY
My Comm. Expires April 8, 2005

Jerrie L. Roberts
Notary Public in and for the State of Arizona

Copy of the foregoing mailed

Certified Mail 7002 2030 0003 4807 2877
this 21st day of September 2004, to:

Frank Burke, Esq.
Stacey Gottlieb, Esq.
Steptoe & Johnson, LLP
Collier Center
201 East Washington Street, Suite 1600
Phoenix, Arizona 85004
Attorneys for Dan Nahom

Copy of the foregoing delivered
this 21st day of September 2004, to:

H. Leslie Hall, Assistant Attorney General
Accountancy Enforcement Unit, LES/Civil Division
Arizona Attorney General Office
1275 West Washington
Phoenix, Arizona 85007
Attorney for Arizona State Board of Accountancy

Yolanda M. Barajas
#428462